Even in this form, the contention that the fight against unemployment must be combined with a rise in the price level was a direct challenge to Chancellor Brüning, who believed the crisis could be solved by a further cut of prices. This was also a challenge to the S-D party, which silently supported Brüning's economic policy, opposing it only insofar as it threatened to affect real wage rates. I was so absorbed in developing the technical details of my project that I did not realize its political implications. Lothar warned me, "You are stepping on the toes of many important people."

The reaction of the S-D party to my first article in *Die Arbeit* showed that he was right. The principal organ of the party, *Vorwärts*, published two articles accusing me of luring the labor unions into a new inflation. I considered this accusation an appeal to the prejudice and ignorance of the readers. In the mind of the economically illiterate public, the word "inflation" was associated with the runaway inflation of 1922-23 that had ruined many honest people and enriched a handful of speculators. "Inflation" was a bad word, while "deflation" was just one of those terms the man on the street could not understand. I immediately sent a rebuttal to *Vorwärts*, but the chief editor of the newspaper refused to publish it, under the pretext that this was a complicated technical question and the paper had already printed two articles on the issue. Other S-D papers followed the example of *Vorwärts*.

Meanwhile economic conditions took a turn for the worse. After the elections in September, 1930, Brüning was looking for some dramatic step to strengthen his government, and decided that an economic union of Germany with Austria would be the right move. This idea backfired. The government's announcement of its intention to promote such a union was interpreted abroad as evidence of Germany's intention to bring about a political merger with Austria, which would be a violation of the Versailles Treaty. In retaliation, the foreign banks began to cancel short-term credits to German and Austrian firms. Considerable payment difficulties developed. Several Austrian banks collapsed. A panic broke out in Berlin. People rushed to the banks demanding their deposits. In July, all the banks were compelled to close. This was a crisis within a crisis, similar to the bank holiday in the United States in 1933.

In the absence of a working majority in the Reichstag, the government was running the country by legislative decrees. Alarmed by the bank crisis, the Chancellor came out with a new bunch of decrees

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view of the International Labour Office and other magazines. My book, published by the Society for Business Research (*Gesellschaft für Konjunkturforschung*) in Frankfort, did not attract much attention. In recent years, however, it has gained some recognition in Germany.